

Bitcoin: Objections and Replies

Guest: Erik Voorhees

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WOODS: Today I just want to play devil's advocate. I already told people that if you're interested in Bitcoin 101 you should listen to the interview you and I did on the Peter Schiff Show. You can get that on YouTube. But today I just want to throw objections at you in a devil's advocate style, and just see what you say. Because almost in proportion to the interest in Bitcoin, there's been a growth in skeptics and naysayers. A lot of the time it's the same arguments again and again, but some of them are sort of new, and so I want to run them by you and get your thoughts, okay?

VOORHEES: Yeah, they're certainly worth addressing at all times.

WOODS: Well, the first one is really specific. Can you describe for us what happened with Sheep Marketplace?

VOORHEES: Yeah. So, most people have heard of Silk Road, which was the underground illegal narcotics website that only used Bitcoin. That was shut down by the FBI back in late September? Early October? Almost immediately after it went down, a few copycat websites came up. One of them was called Sheep Marketplace. It may have been running before Silk Road—I'm not sure—but it was running for just a couple of months after Silk Road got shut down, and then, I guess, a week or two ago, there was an incident, and a whole bunch of Bitcoin was stolen. The question is, was it a hack? Did someone hack in and steal all those coins and run away? Or did the actual operators of Sheep Marketplace steal all the coins and make it look like a hack so they could run away with a bunch of money? So obviously people argue that both ways, but the point is that a bunch of money got stolen.

WOODS: And it's a big bunch. It's like a hundred million dollars, right?

VOORHEES: Yeah. Yeah, it's a lot.

WOODS: Okay, so what does this say, if anything, about Bitcoin in general?

VOORHEES: So, it's very important to realize that Bitcoin is similar to gold in many respects. Just as if you had left your 400-ounce gold bar with some merchant, and that merchant was untrustworthy and took the gold bar and ran away, there's no one you can complain to to get the gold bar back, right? I mean, with gold, as with Bitcoin, possession is sort of ten-tenths of the law, and if you have someone's gold, and they don't know who you are or where you went they can easily run away with it. So this is an unfortunate lesson that a lot of people in the

Bitcoin world have learned. They're not used to having total control over their money, and total control requires total responsibility. If you control your money you have to be responsible for it. So if you give it to someone, you need to trust them. People running an underground drug marketplace may not be the most trustworthy types of people in the world. So some people seem to think that this should have been expected, but obviously theft is always theft, and always wrong, so it's a very tragic incident in any case.

WOODS: Well I want to shift gears to a question that's been on my mind. I think I can anticipate an answer, but I think it'd be interesting to hear your answer. When I hear Bitcoin people talk, sometimes they talk about it in language that might seem to the average person to sound sort of over the top about what they expect Bitcoin to do. "Bitcoin is going to destroy the state, it's going to topple central banks, it has all this great potential."

And maybe it does, but here's my question. For it to do that, you would have to get to a point where a huge, huge number, much, much larger than right now, would be using it. Can we plausibly expect that, when it is, after all, a system that is very difficult to explain to the average person, and, in fact, the average person using it is going to realize that it's actually not that hard to lose Bitcoins? Like if you just install some app on your smartphone, and you make a Bitcoin transaction, you've got a Bitcoin on there, and then a few months go by, you haven't done anything with that Bitcoin, it's time to upgrade your phone, so you toss it in the garbage—and there goes your money! Your Bitcoins are gone forever! So is this something you could plausibly imagine the masses of the public actually jumping into?

VOORHEES: Certainly Bitcoin isn't ready for everyone and their grandmother to be using it. It is still very small and it is still very much an experiment, and it's still a little rough around the edges. Many things that in future years will be the obvious Bitcoin tools that we all needed simply haven't been built yet. So until that happens, Bitcoin's usage will be limited to people who care enough about it to get over that obstacle. The same thing was true of the Internet in the early days, before web browsers, before AOL, before Netscape. The Internet existed, but was very difficult to use, people didn't understand it, and it was around for a number of years, you know, in that state with people slowly getting evolved and building up the tools that later would allow it to be used on a widespread level. And now of course we all take it for granted, and everyone uses the Internet all the time. So that same thing, that same process has to happen with Bitcoin. A lot of the different companies are building those things, but they're not all ready yet.

WOODS: This is interesting to me. Can you maybe think out loud here? What kind of things would you like to see developed that might improve, I don't know, the functionality or the user-friendliness of Bitcoin? And by the way, that example of the smartphone, that wasn't just pulled

out of the air—that was me, because I sold somebody a book in February, the first time I ever made a Bitcoin transaction, and then I still hadn't quite figured out how to use it. And then when I upgraded my phone, because I hated that old phone, I got rid of the old one and I later thought, "Oh, no!" And then of course it shoots up to 1200 dollars. It was 30 in February 2013 [laughs]! What an idiot!

VOORHEES: Yep [laughs]. Well, you know firstly people will tend to learn the lesson after they lose money, but ideally you don't want people to have to deal with that. Some of it is just that it takes time for people to learn a new system, and how to use it responsibly. Just like when you're learning to drive a car, it takes some time before you're good with the car. For us who have been involved with Bitcoin for a while, we know how to use it responsibly and we know it can be done very safely and easily once you know it. But there's a learning curve, absolutely. There are other mobile wallets for your phone, where if you lost your phone or you destroyed it, you could have had a backup on your computer, for example, but you didn't know that. You could have had a printout of the private key somewhere. So there are ways to avoid most or all of the pitfalls of Bitcoin, but it takes some specialized knowledge, and I think probably the best new businesses in Bitcoin will be people who figure out how to remove the need for that specialized knowledge from the normal user base. Just making it foolproof—that's where a lot of the value will come from.

WOODS: Now what do you say to people who say that Bitcoin is so volatile right now that it can't serve as a really good medium of exchange, and that in fact it's really not being used as a medium of exchange as a result of that, it's being used—people are holding it as a speculative investment, and they're not really using it for the purposes that Bitcoin partisans are wanting it to be used.

VOORHEES: First of all, it's not an either/or situation. It's not that either we're using it as a currency, or that we're all speculating and holding it because we think the value will go up. It's obviously a mix of both, and you know, myself, I hold a bunch of Bitcoins because I think that the value will be going up, but I also use it as a money; I buy things, I buy airline tickets, I buy Christmas gifts, I pay contractors and workers in Bitcoins, so I'm using it as a money and I'm speculating on its value. They're not at odds with each other, but something like Bitcoin is going to either change the world, and become a kind of protocol that's used by people all over the place, or it's going to fall out of favor for some reason, and kind of dissolve. Maybe there's some kind of a terrible bug that will cause that to happen, or maybe a better cryptocurrency will come along, or maybe people just forget about it, and then it will go to zero. So what you have is a situation where the future expected price of a Bitcoin is either going to be zero, or it's going to be something really high. So how does a marketplace properly value that? How do you value something that'll either be zero or worth a lot? So every little indication of which

outcome it might be is what leads to these big swings. When big companies announce that they've added Bitcoin integration it looks like "Oh, this is actually catching on," so the price is going to move up. And when governments get angry and say they're going to try to ban this, then maybe, "Uh oh, we can't use this anymore, it's going to go to zero." So this is a market trying to price a revolutionary new technology and I don't expect it to stabilize anytime soon, but we shouldn't be afraid of the volatility. We should understand that that's just a natural market phenomenon. And indeed, Bitcoin now is far more stable now than it was three years ago. So, as it grows, as the market cap gets bigger, as more people are using it, it will stabilize over time. But that's something that's earned, not bestowed upon it at the beginning.

WOODS: Well, that seems like a good point for me to ask this—I was going to hold it off until the end—but Roger Ver, whom you and I both know, who recently had a sort of bombshell announcement because he had predicted a couple of years ago that Bitcoin would outperform gold, silver, the stock market and the U.S. dollar by more than a hundred times, and instead of it taking two years, it took two years and two months for this to happen, so he wound up having to pay out as a donation the equivalent of a million U.S. dollars. So it's no problem that he paid for the lunch when I met him that time—I guess he can handle it. Are you willing to go on the record with any type of prediction about where Bitcoin will end up? I mean, where's the fun in life if you don't take a risk like this, right?

VOORHEES: Well yeah, I mean people are into Bitcoin for lots of different reasons, and for those of us who really believe that this has incredible potential, we've staked not only our money, but our lives, our careers, our reputations, and sometimes even our friendships and our relationships on this system, and so it's very much something that people are risking all sorts of things on. But it's like the Wild West in that people saw opportunity and risked everything to go seize it, and there'll be lots of heartbreaks and disasters along the way, but ultimately that's the way that humankind progresses. No one actually took the other side of Roger's bet, so he didn't technically need to pay, but he wanted to make a big donation to the Foundation for Economic Education and he saw this was a good way to do it, so yeah, it was quite an impressive donation, for sure.

WOODS: Now, another thing that's come up quite a bit is the question of secrecy and Bitcoin, because a lot of Bitcoin partisans point to how anonymous it all is. But I think it's only as anonymous as you make it, so I guess before we get into the anonymity aspect of Bitcoin, can you first tell me what in your judgment would be the one or two most appealing and attractive features, things about Bitcoin, reasons you're into this so much? Is secrecy anywhere on that list? Is anonymity anywhere on that list? Or is it something else?

VOORHEES: Secrecy is not that big of a deal to me, but the two things that are most important to me is that it is a money that is not treated or managed by the state. It is a stateless money. This is also why I like gold, but, of course, unlike gold, Bitcoin also works amazingly well in day-to-day transactions and normal modern commerce, both online and in person. So it's really the first non-state money that I think has a chance to thrive in the marketplace. That's the first thing I like. That's just an ideological argument. From a functional argument, once you understand how to use it, it's just damn easy. I mean, I can send someone in another country \$100,000 in one second and there's no fee, there's no delay, it doesn't matter if it's a Sunday or Christmas morning or whatever. I can send money now to people as easily as I can send them an e-mail. And I mean, why not, right? It's all digital. All you're using now, it's already a digital currency. Why does it take three to seven business days for you to send your digital dollar currency from you and your digital bank account to someone else's digital bank account? It's not like they're shipping stacks of dollar bills across the earth, or pounds of gold. It's all digital, so why does it take so long? That's the other big virtue of Bitcoin, in my opinion.

WOODS: Alright, now suppose you're just the average Joe, getting into this. I'm sort of the average Joe when it comes to this. I've got a "donate Bitcoin" widget on my TomWoodsRadio.com website. I accept Bitcoin for my subscription website, LibertyClassroom.com, and I'm pretty happy with it. And you're right: I don't pay the fees that I pay to Paypal, for instance, when I receive payments. So, this is all great and everything, but now I got these Bitcoins, and it's great if they increase in value, that's good in and of itself, but what am I supposed to buy with them? And I know we could say, "Well, look, it's still beginning and there are new merchants coming online all the time," but the kind of running joke that critics of Bitcoin keep making is that unless you're going to buy illegal drugs, or computer programming services, you're going to want to cash it out, and start using dollars again. So what's the point of the whole thing?

VOORHEES: Yeah, so this is where a little bit of misconception comes in. First of all, you can buy anything on the internet with Bitcoin already, and interestingly enough the merchant doesn't even have to accept Bitcoin. There are ways now to buy things with Bitcoin through proxies and other companies that'll take your Bitcoin and buy the things for you and send it to you, so right now I can buy anything I want on Amazon with only Bitcoin. So, when people say, "What can I buy with it?" The answer now is: anything.

WOODS: All right, time out. I had no idea about this. So is there any way you can give the layman's quick overview about what steps you would want to take if you wanted to start doing that?

VOORHEES: The name of the service that I used recently is Snapcard. You essentially have an account with them, and they know your physical address, so they can send you things, and then it's just a browser plugin. So you can go to any website, say you're on Amazon, and there's a Tom Woods book. Say you want to buy *Nullification* by Tom Woods. You open the page on Amazon with the item, you can click on the Snapcard link in your browser, because you've added it, and Snapcard will see that there's a product with a price, and then you just click on that book, and it says, "okay, this book costs \$20 right now, that equals .00264 Bitcoins, and then it gives you a little Bitcoin address to send to, then you just transfer Bitcoins to that address, and the rest is done. You don't have to enter your name or anything. It's amazingly easy. They take the Bitcoin. They already have the address. They just order the product and send it to you. And you can do that with any e-commerce website on the internet right now.

WOODS: Alright, so we've been talking for, I don't know, maybe 17 minutes, up until now, and covered what I think are the types of objections that are the most common these days; you also hear people saying that this is a bubble, but I think that implicitly you have answered that. But is there any recent criticism of Bitcoin—not one that you've gone over a million times—but are there any new ones that you feel like ought to be addressed, or the other side should be heard?

VOORHEES: Well, let's actually discuss that bubble idea for a little bit.

WOODS: Okay, sure.

VOORHEES: So people see the price of Bitcoin, and the price history, and when you see the price of something that has just gone straight vertical, anyone that knows about financial markets knows that that's unlikely to continue, and that that's an anomaly, and rare. And so it's understandable to conclude that this must be a bubble, and that this is scary. I'm not going to buy it, you know, it's going to end in disaster. But, you know, Bitcoin has gone through multiple bubbles, right now, and I expect that it is going to go through a number of them in the future. Just due to how people, you know, supply and demand things, people start getting really speculative and interested in something. Its price is going to go very high.

Now the important thing to remember with Bitcoin is that even if it's in a bubble, whether it's in a bubble at \$1,000 or if it goes up to \$20,000, the bubble will pop at some point and it will find a new equilibrium. That each time it goes through these bubbles, it finds an equilibrium that's higher than the bubble before it, and it's never crashed down to the price it was before that. So the bubbles really need to be taken in context. I mean this last one, where it had risen up to \$1,200 a Bitcoin, over the last few days, there was a big crash, and it fell down all the way to the \$600s, so clearly there was a popping of a bubble there. And it's already back up to \$1,000, and who knows where it'll be in the future. But the point is that if you're a true investor in this, over the long term, you shouldn't worry about these short-term fluctuations and how

the market is trying to price it. The short-term movements of Bitcoin are not really what's important, and it's probably a bad idea to try to gauge-rate it, unless you have an appetite for huge amounts of risk. But if the system gets adopted, the price will continue because it's a scarce resource.

WOODS: Wasn't that recent drop down into the \$600's occasioned by some news out of China about some Chinese thing not wanting to take Bitcoin? What was that all about?

VOORHEES: Yeah, so, first of all, it's not always wise to ascribe causes to market movements. Many, many things go into every price. Certainly, the announcement of China was the impetus for this last recent selloff. Basically, it was either the Central Bank of China or some other fairly high-up government group in China said that they didn't want Bitcoin to be used by financial companies in China. They didn't want banks opening up Bitcoin markets. They didn't want financial companies to be speculating on Bitcoin. So they basically barred the financial industry in China from getting involved in Bitcoin. So some people interpreted that as, "Uh oh, they're starting to clamp down, they don't want Bitcoin to be used, and so this is bad." And that was, perhaps, why they sold it off. In reality, at the same time to clarify, Bitcoin is absolutely legal to be used by normal Chinese people. They just need to understand that there's risk in it, and they can use it if they wish. So other people saw it as a positive, but the negative sense in it won out. Perhaps several days later people looked at the news and realized that it wasn't as bad as it sounded. Maybe that's why the price is already back up to \$1,000.

WOODS: You know what's interesting is that I can recall a time, as I'm sure you can, not that long ago, when Bitcoin was being talked about really only by a small community of libertarians and contrarians of sorts, and it seemed like something off the wall. But now it's in the financial papers, everybody's talking about it, everybody's expected to have an opinion about it. Is this happening sooner than you expected or is this right on time, or what do you make of all this sudden growth in interest in it?

VOORHEES: Well, those of us who were involved in it two years ago, when it was still tiny and very niche, we talked about it and how this would happen, that Bitcoin is going to keep going and becoming more and more integrated into the world's financial system and that, you know, more and more important players will start to take notice and get involved in it. And to a large extent, we were laughed at and told, "Oh, you guys are just dreaming, you guys are just a bunch of idealistic libertarians and you have no idea about money. This stupid deflationary currency can never work." You know, every reason under the sun why we were idiots. But of course, it is working, it is working in the marketplace, and the marketplace is adopting this system increasingly. So, yeah, it's getting integrated all over the place and it's not just a U.S. phenomenon, It's happening all over the world. I think that the central bank of Kazakhstan just

released some information about their opinion on Bitcoin, so yeah, it's extremely exciting, it's happening a little faster than I thought, but, Internet technology tends to catch on pretty quickly. And if there's a financial incentive for it, then maybe even faster.

WOODS: I'm sorry to say I didn't click on it to get the information, I'm just so swamped with work these days. But I'm pretty sure I saw a headline that Bank of America came out with a report on Bitcoin in which they basically said, "Well, you know what, there may be something here." Am I remembering this right?

VOORHEES: Yeah, so I think it was a guy named David Wu, something Wu, he's a respected kind of Wall Street guy that works at Bank of America-Merrill Lynch. And I'm not sure if he works for the normal Bank of America corporate offices or if he's in the investment wing under the Bank of America corporate structure. But in any case it was under Bank of America letterhead, and it was released as this analyst's opinion on Bitcoin, on whether he thinks that it's valuable, where it could go from here. So these types of analysts put out this kind of stuff for lots of things, for stocks, and various investment opportunities. So it's important because it indicates that the normal financial world is really starting to take notice, and they think it's worth their time to pay attention to this, and, you know, I think they're absolutely right to be paying attention finally.